

**OSTRÓW-WIELKOPOLSKI
REPORT OF THE PILOT LGPP
ASSESSMENT TEAM**

(DRAFT)

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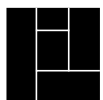
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PREFACE

The City of Ostrów Wielkopolski has made significant progress in transforming municipal service enterprises to become largely self-sufficient and self-financing entities providing improved service to citizens. In September 1996 the President of Ostrów Wielkopolski expressed the desire to receive technical assistance from USAID under the Pilot Local Government Partnership Program. Responding to this request, a team of USAID consultants worked in the City of Ostrów Wielkopolski during the week of 18 November to make a detailed assessment of the City's request for technical assistance (TA) in 3 areas:

- **Preparation and Implementation of a Physical Master Plan** — to assess the status of preparation of a new city master plan and recommend an approach which strengthens the linkages to the city's economic development strategy and capital improvement planning.
- **Assistance with Management of the Gmina Housing Stock** — identify critical needs and recommend improvements for more efficient management of gmina-owned housing stock.
- **Health Care Feasibility Study** — to evaluate the potential take-over of local, central government controlled health care facilities by the gmina.

Detailed objectives can be found in Attachment D: Statement of Work.

The authors of the report tried to reflect accurately the substance of the discussions, and to summarize the findings with the aim of identifying areas where there appears to be significant potential to improve local governance. We regret any errors of fact, interpretation or omission which we may be found in the report.

We intend that the findings or recommendations in this report should serve as the substance for a series of meetings with counterparts in Ostrów Wielkopolski, with the objective to define concrete objectives and activities, timing, and responsibilities of the parties. Thus we hope that those who participated in the assessment meetings will now look critically at the interpretation presented in this report, to prepare for the next step.

The team wishes to express gratitude to their counterparts in Ostrów Wielkopolski who graciously accommodated our various requests for meetings, site visits and to produce documents. The professionalism of the counterparts is impressive, and augurs well for future collaboration. We would like in particular to thank President Kruszynski and City Secretary Mr. Krakowski for their substantive and logistical support at an otherwise quite busy time for the Gmina staff.

OSTRÓW-WIELKOPOLSKI
REPORT OF THE PILOT LGPP ASSESSMENT TEAM
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1 INTRODUCTION

Ostrów Wielkopolski is a city of some 75,000 residents with an additional 25,000 commuters visiting the city each business day. Fifty seven percent of residents are in an age group between 19 and 60 years of age. The City is a commercial and market center for surrounding predominantly rural country. It has competed over the years with nearby Kalisz as the site of Voivodas office.

The local economy is based upon such major employers as a railroad repair shop (4,000 employees), electronic component manufacturer, secondary level schools, hospitals, local administration and small businesses such as retail and wholesale operations. Roughly 5,000 businesses are operating in the city. Unemployment estimated at 13 percent is lower than the state average.

City history goes back to the 16th century, but there are not many old historical monuments left. The city center retains medieval street patterns, but most of the buildings are from early 19th century or turn of the century period. The old town center is attractive with a high potential to draw more shoppers and visitors if rehabilitation work is done.

The city covers some 42 sq. km of generally flat land. Average population density is 1,785 residents per sq. km.

City policy is determined by powers vested in elected representatives comprising the City Council. Short and long range priorities are established by borough committees and city executives.

2 ENTERPRISE RESTRUCTURING

The Local Self-Government Act of 1990 gives the gmina the right to manage its own staff and resources, and the freedom to adopt appropriate organizational and legal structures by which to deliver a wide range of public services. Consequently, the Ostrow Wielkopolski council established 6 enterprises as joint stock or limited liability companies charged with delivering a substantial share of the services which devolved to the gmina.

The missions and mandates of these "operating companies" are in the following areas:

- WODKAN (operator and builder of city sewage and water systems)
- MZO (operator of solid waste facilities)
- MZGM (operator of housing stock)
- OZC district heating operating company
- MZK transit operating company

- marketplace operating company

At the time of their founding, the gmina transferred real estate, physical plant and other assets to each of the operating companies as an equity investment, receiving in exchange the entirety of the authorized shares of capital of the companies. At least two of the companies — district heating, water/sewer — have attracted additional investment by selling shares to (respectively) an American company, and to households scheduled to receive hookups to planned water/sewer line extensions.

In 1996 the gmina council founded a holding company registered as a "capital group" to which it has transferred all of its shares in the six operating companies. The Ostrow-Wielkopolski City Council is the general assembly of shareholders in the holding company.

Numerous advantages of the holding company approach have been cited, including:

- to foster more stable and professional management, insulating the management and operations of the companies from "politics;"
- to create a legal and organizational context for financial self-reliance of each operating company;
- to use capital assets more effectively and halt the erosion of the gmina's assets;
- to involve residents more actively in the planning and delivery of services, including direct equity investment by residents in the operating companies;
- to use the entire capitalized value of the holding company to secure loans, thus potentially giving individual operating companies access a greater pool of credit at lower interest rates than they could secure if acting independently;
- to promote investment, in part by making the operating companies more attractive to outside equity investors.

Another significant benefit of the holding company structure is to reduce its tax liabilities. As a "capital group" — a specific type of legal entity under Polish law — the holding company will file a single consolidated income and loss statement for tax reporting. This should reduce its tax incidence as the excess revenues of "profitable" operating companies can be offset against the losses of other companies thus reducing the net "profits" — and the tax liability — of the group as a whole.

As explained by President Kruszynski, the process of restructuring will pass through several main stages. First the establishment of operating companies, which is already well under way. Second, setting up the holding company, which was completed in 1996. Third, a period during which the operating companies should become "mature." Finally, diversification of ownership by selling shares and/or attracting new capital or equity investments from individuals or groups. Ultimately the gmina hopes to sell as much as 49% of its stake in the holding company primarily to residents of Ostrow-Wielkopolski. This is promoted as a means to "enfranchise" residents, allowing them to participate directly in decision-making about capital investment priorities in the communal economy.

At present the companies are in the process of “maturing,” which involves internal restructuring and reorientation of the companies to be more entrepreneurial and autonomous. The policy of the Gmina is that no company should receive a subsidy from the gmina budget, but subsidies continue for major capital works such as the recently completed water treatment works, and according to the city's "Summary Investment Plan" they are anticipated to continue at least for the medium term.

3 HEALTH CARE DELIVERY

3.1 Background Information

The health care system of Poland is largely based along the model common in areas previously under soviet domination. It is a centrally controlled system with management and financing originating at the national level and flowing down through bureaucratic levels to local institutions. Free health care is a constitutional “right”, with no official fees charged at government facilities.

Although the rest of the Polish economy appears to have rapidly decentralized and shifted to more market based operations, the health care system has not yet evolved. Exhibit 3.1.1 is a graphical representation of the traditional flow of funding and managerial control from the top down. In this system, institutions have very limited operational autonomy, and are at the mercy of centralized decision making.

In an attempt to improve the resources available to local clinics, a few gminas have taken over ambulatory clinics serving their populations. As can be seen in Exhibit 3.1.1, the funding in these “independent” systems continues to primarily originate at the national level, but is funneled through the gmina. Local subsidies are added to this flow in order to increase the level of resources available to the clinic. Technical supervision and management continues to come through the centralized system. Ostrów Wielkopolski is debating some form of local take-over of the health care system. This paper outlines several possible forms this take-over may assume, and poses the key questions that will need to be answered prior to any action on the city's part.

Overall, the level and quality of care delivered at the facilities inspected in Ostrów Wielkopolski appears to be quite good. Although resources are obviously limited, the facilities are exceptionally well maintained, and

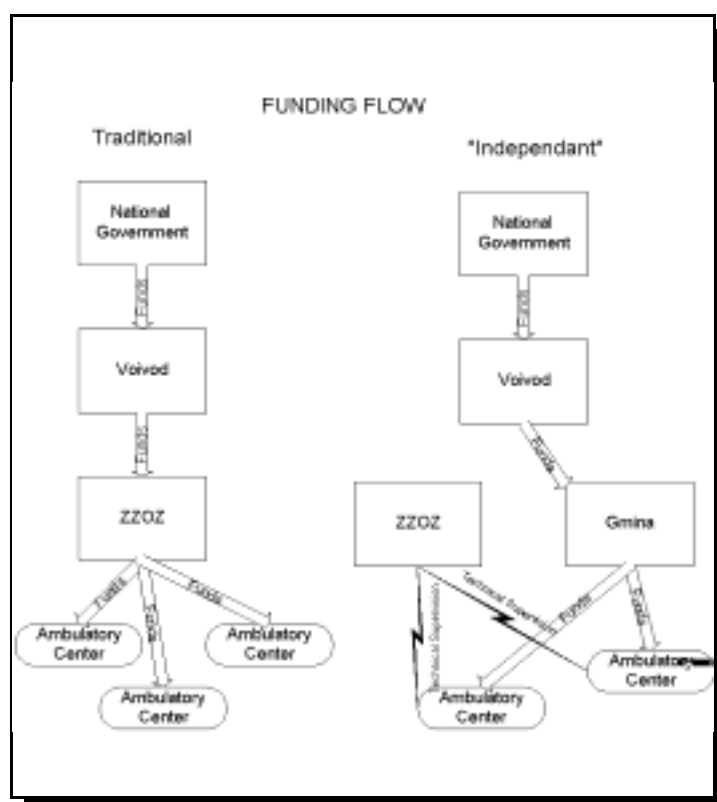


Exhibit 3.1.1: Funding and Control Models

staff are clearly committed to a high level of quality. It was very important to note that although most equipment is quite old, it is maintained in a functional and sanitary condition. This points to both a high level of professional commitment, and to an understanding of the need to reserve some amount of very limited resources for repair and maintenance. In the author's broad experience, this is a very rare occurrence. Usually repairs and maintenance funds are among the first to be cut in times of financial hardship.

Assuming that other health facilities in the rest of Poland are in a similar state, this high level of performance may in fact be both a blessing and a curse. A blessing for the obvious reason of the quality of care provided to patients. A curse, in that the ability of providers to maintain a relatively high level of care despite the great inefficiencies of the system's structure has postponed much needed radical reforms of the total health care system. This relative level of comfort (or rather lack of great discomfort) may be a key factor in the slowness in adopting, and lack of substantial change in, proposed reforms of the national system.

Although relative satisfaction with overall care may be impeding national reforms, dissatisfaction with the efficiency of the government system has been having an impact. Growth of the private health care sector has been substantial.

Exhibit 3.1.2 shows that about twenty percent of health care services are provided by the private sector.¹ What is also shown is that even in the public sector, a significant level of user financing is reported to be occurring. Not only are shortages of drugs and supplies forcing patients to provide these items out of their own funds, but a significant number of persons using the government system feel that an "incentive gratuity" given to the treating physician will help to secure a favorable outcome of care.

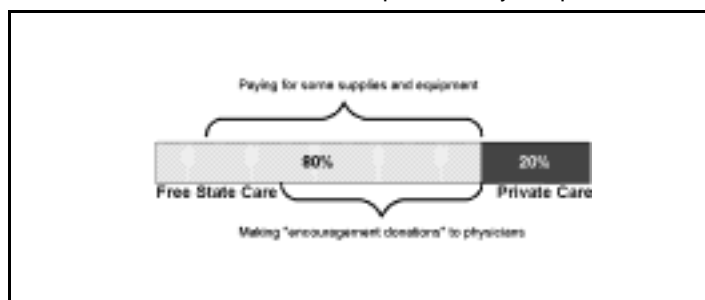


Exhibit 3.1.2: *Present Health System Utilization and User Financing*

Given the international tendency for increases in the private sector provision of health services, and an almost universal acceptance of the idea that government provided care must be supported by some level of out-of pocket user funding, it seem likely that the present mix of government/private services will continue to change. If Poland follows a more typical course, it is likely that the level of private care will continue to increase, the bulk of citizens will receive government subsidized care (perhaps insurance with co-pay) and that a small number of people will remain unable to contribute to their care. Exhibit 3.1.3 shows a mix of financing and utilization that could be achieved very rapidly in Poland given the present actual pattern of health expenditures.

3.2 Priority Issues

¹ Although no hard numbers are available, these percentages are based on the "best guess" of health care providers and consumers interviewed. Twenty percent private care was the consistently arrived at figure. Anecdotal evidence suggests that the percentage is at least this high as *all* persons questioned who were employed in professional level jobs reported that they used private care exclusively.



Recognizing the need for improved funding and increased managerial autonomy in the health care system, the City of Ostrów Wielkopolski has been considering a possible take-over of local health services. Ostrów is a very progressive city that has already decentralized and partially privatized many city services. Financial performance and citizen satisfaction with these services is reported to be excellent. Success with city provided services prompted the city to take over local primary schools which were previously under national control. Satisfaction with school quality has been

very high, and the city was able to introduce a novel twenty percent user fee to increase revenues.

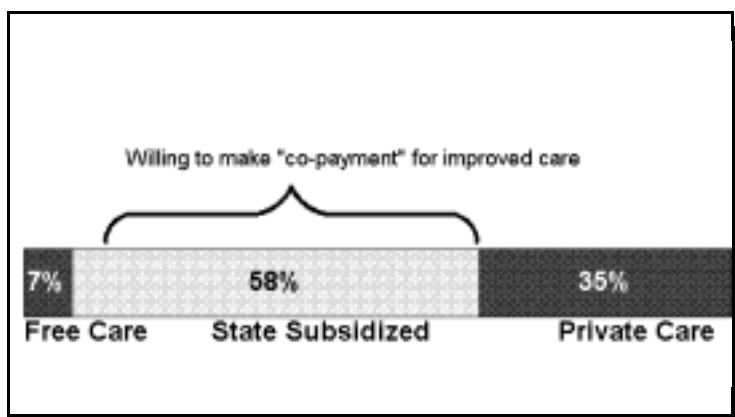


Exhibit 3.1.3: *Projected Health System Utilization and User Financing*

Ostrów has also taken a lead in the introduction of city financed preventive health programs. A city run center for addiction prevention and treatment is managed as a partially autonomous facility funded fifty two percent by the city and forty eight percent by the national budget. A program for the prevention of cardiovascular disease and cancer (CINDI) that is country wide in focus, also has received additional support from city funds.

Given this commitment to preventive health programs and the success of city controlled programs in other areas, the Municipal Council and the Mayor's office have been seriously considering a similar take over of curative health services. Although support for some level of take-over appears strong, there are very different ideas about how far this take-over should go, and what form it should take.

After a one week visit to Ostrów Wielkopolski, the author of this paper is in substantial agreement that the possibility of a city take-over should be considered. What needs to be determined however, are the short and long term goals of a take-over, and what would be the likely costs and benefits of the different possible forms that this endeavor may take. In order to adequately determine the most beneficial path to follow, a number of critical questions on the parameters of a possible take-over will need to be answered.

The ultimate goal of any chosen take-over scenario will need to be defined in terms of such factors as desired level of quality care, the optimum mixture of private and public providers, and, the most beneficial level of provider autonomy.

A key first question that determines the environment in which any possible option will take place is that of the nature of up-coming national health reforms. Under any conceivable take-over scenario, the local health care system will remain highly influenced by national policies. Not only would national reforms effect the potential parameters of any future system, it is highly likely that national reforms will have a major impact on the financing of local facilities.

Hospital officials in Ostrów Wielkopolski reported that the financing reform presently being considered involves a major change in the raising of revenues for health services. Presently, health services are financed

out of the general national tax revenues. The reform being considered would move health financing to be incorporated in the social security tax (ZUS). A critical question that will determine the size of any future national health subsidy will be the amount of revenue generated by the proposed eleven percent of ZUS compared to the current 4.6 percent of general revenues. The second major research question is over the scope of a possible take-over. Exhibit 3.2.1 is an approximation of the present arrangement of local health services. Local health facilities are under the management control and financing of the ZZOZ. As can be seen from the diagram, most but not all facilities of the local ZZOZ are physically located in the city of Ostrów Wielkopolski. This arrangement presents a complicating factor in any take-over scenario as it is not immediately clear what level of take-over is most beneficial when compared to potential costs.

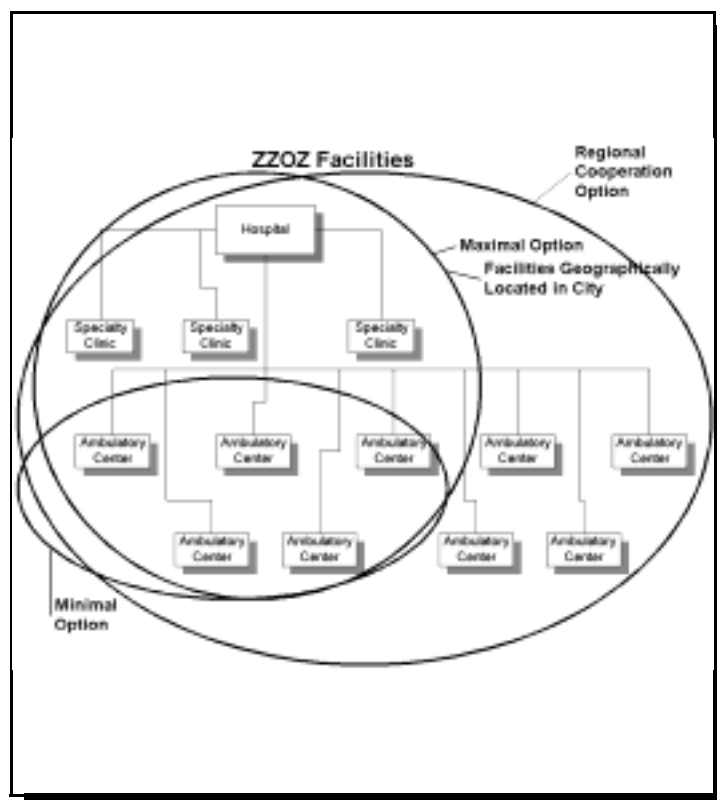


Exhibit 3.2.1: Health System "Take-Over" Options

One level of take-over being considered has the city assuming responsibility only for the ambulatory centers located within the municipality. This scenario has the apparent advantage of posing the lowest financial burden on city resources. Its potential disadvantages are the lack of administrative infrastructure at the ambulatory center level, and possible citizen confusion as to why ambulatory care has been improved but hospital and specialty care were left alone.

A second possible scenario is the take-over of all of the facilities located in the municipality. This has the potential advantage of achieving greater improvements in care, and utilizing existing managerial resources. Potential disadvantages are financial. Not only would the size of the take-over increase substantially, but there is the danger of city resources being spent on the approximately thirty five percent of specialty clinic and hospital patients that come from adjacent gminas.

A third option would be a regional cooperative take-over of the ZZOZ. Although the financial burden would be spread, the administrative structure would be more complex.

The next question that requires investigation is that of the nature of any possible take-over in terms of "depth" and duration. World wide, consensus is growing that autonomous health care facilities are more efficient than those controlled from above. Just what "depth" of autonomy would be most efficient in the case of Ostrów Wielkopolski has yet to be determined. Exhibit 3.2.2 looks at the possible spectrum of levels of autonomy in terms of options available to the city. An examination of the benefits of total compared to partial autonomy and the defining of legitimate options open to the city will determine where along this spectrum a take-over would fall.



A critical issue to investigate in terms of duration of actions will be the implementation of national reforms. It is presently anticipated that any reforms adopted will not actually be put into effect for approximately three years. This will effectively necessitate the development of a strategy or strategies that covers the present time frame (the next three years) and the “post-health reform” time horizon.

Utilization of government subsidies, both national and local will also need to be considered. Certain policy goals will need to be defined that will determine the allocation of public funding. Given the increase of the private sector and the willingness of people to contribute to the cost of their care, decisions will need to be made on spreading funds equally, or, on weighting the use of public funds towards indigent care.

As to the growth of the private sector, policy options regarding the level of city assistance to private providers will need to be clarified. As exhibit 3.2.3 indicates, available options range from a “hands off” approach to active encouragement and support of the development of private providers. Again, this will need to be examined in terms of cost to the city compared to health benefits for citizens.

3.3 Recommendations for Technical Assistance

The city of Ostrów Wielkopolski faces a large number of uncertainties in its quest to improve health care services for its citizens. The City's record of impressive achievement in the decentralization/privatization of municipal services is reason to believe that they could in fact be successful in a take-over of health services if options and opportunities could be correctly weighed. It would therefore be highly appropriate and helpful for the *Local Governance Program* of USAID to provide technical assistance to the city in order to conduct a thorough analysis of options, costs, benefits, and strategies for a take-over of local health services.

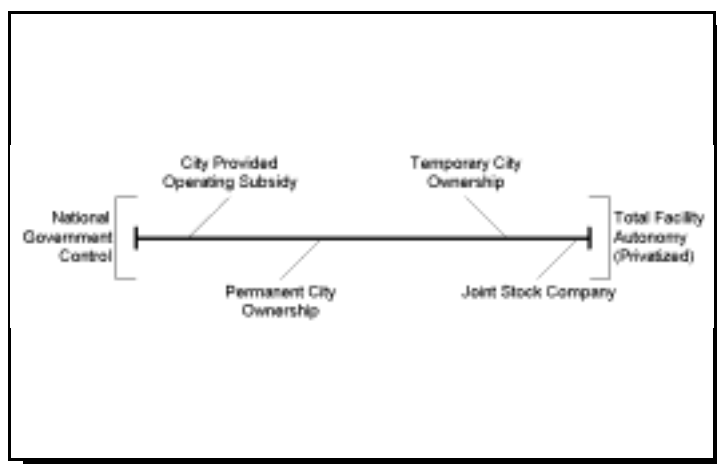


Exhibit 3.2.2: Spectrum of Autonomy

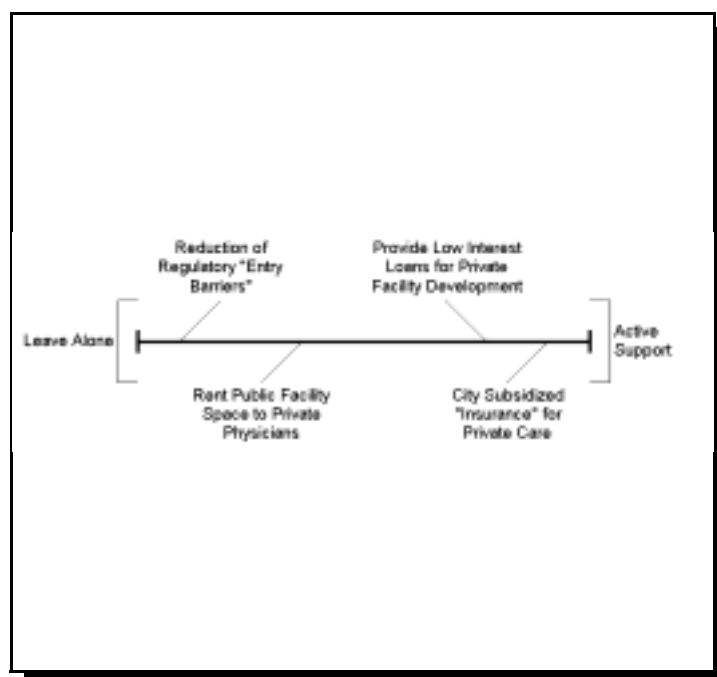


Exhibit 3.2.3: Municipal Private Sector Options



A number of specific issues will need to be studied and analyzed carefully by a joint Polish-American team of health care, finance, and organizational experts. Although a complete list of issues to be investigated will need to be determined, the following are indicative of the major research areas:

- *Financial analysis of the ZZOZ* will need to be conducted to understand the present financing of the ZZOZ as a whole, and of each of its parts such as the hospital and the ambulatory care centers. Revenues will need to be looked at from the perspective of present sources and likely future sources, and expenses will need to be analyzed both from the perspective of present consumption and future needs at different levels of improved services.
- *Analysis of national reforms* will be critical to understanding the environment under which any city chosen option will function. Distinct options may be needed for the “pre” (next three years) and “post” health reform time frames. Reforms will need to be examined in terms of both opportunities for improved care or increased financing, and as potential impediments to beneficial operations.
- *Analysis of other reform models* should be conducted both within Poland and in similar countries to profit from the experience of others.
- *An assessment of provider capabilities* is needed to determine the appropriateness of physician and facility supply with anticipated demographic and epidemiological need. Provider views in terms of private sector size and function need to be examined.
- *Citizen/patient views on costs and quality of care* will need to be examined to focus on areas where patient perceptions of care will influence improvement efforts, and to determine more precisely what options are available in terms of increased use of private sector services and user financing of public services. Focus groups may be employed as a quick and inexpensive method to increase understanding of these factors.
- *An assessment of regional cooperative options* should be conducted to determine if take-over of the ZZOZ as a functional whole is a viable and beneficial option.

As the first step in conducting this study, it is recommended that Mr. Gregory C. Becker return to Poland to commence activities. An outline of recommended activities is:

- *Meet with Ministry of Health Officials in Warsaw* to learn the nature of proposed national health reforms.
- *Recruit Study Counterparts from Ostrów Wielkopolski* including representatives from the City Health Department, the Municipal Council Health Committee, the Hospital, Ambulatory Centers, and the ZZOZ.
- *Meet with Jagiellonian School of Public Health* in order to develop a possible cooperative agreement as Study Team Members.



- *Investigate health care reforms underway in Krakow or other areas to provide experiential perspective on possible options.*
- *Meet with and recruit other possible Polish counterpart organizations needed to complete Study.*
- *Finalize Study scope of work, schedule, and technical issues paper and submit to USAID and Mayor's Office for final approval.*

4 MANAGEMENT OF LOCAL HOUSING STOCK

4.1 Background Information

Management and development of municipal housing are part of Ostrow Wielkopolski's unique experiment in enterprise restructuring. The Miejski Zaklad Gospodarki Mieszkaniowej Z O.O. (MZGM) is a limited liability company, one of 6 independent operating units controlled by the gmina's holding company. Established in November 1994 by decision of the Ostrow-Wielkopolski City Council, the stated purpose² of MZGM is to:

- administer the municipal housing stock, meeting residents' housing needs, at appropriate standards, fulfilling the mandates of the Law of July 2 1994 on tenancy of dwellings and housing allowances;
- administer real estate within the scope identified by the Law of June 24 1994 on ownership of apartments;
- administer business premises and other real estate owned by the company, exercising rights and obligations of landlord; and
- to build apartment houses and business premises.

The General Director of MZGM is its chief operating officer, supervising 3 deputy directors responsible for the functions of Finance/Budget, Ownership & Administration, and Maintenance. Before July 1996 the gmina council filled the role of shareholder in MZGM, responsible to make or approve the most important decisions of the company. In July 1996 the Gmina transferred its shares and votes to the holding company, but the council remains the sole shareholder and thus is the "General Assembly of Partners" which has sole control over MZGM.

As an autonomous legal entity, the MZGM controls its own budget — including residential and commercial rents. The charter act of MZGM also transferred the gmina's residential and commercial properties, plus cash, equipment and some fixed assets to the ownership of MZGM. This combination of autonomy and ownership of real estate assets is probably unique in Poland.

Ownership of Housing	Units	%
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² As stated in the "Deed of Partnership," December 9, 1994, (paraphrased).



MZGM Housing Units	2925	15.00%
Private	11700	60.00%
Other, Institutional	4875	25.00%
Total Ostrow Wielkopolski	19500	100.00%

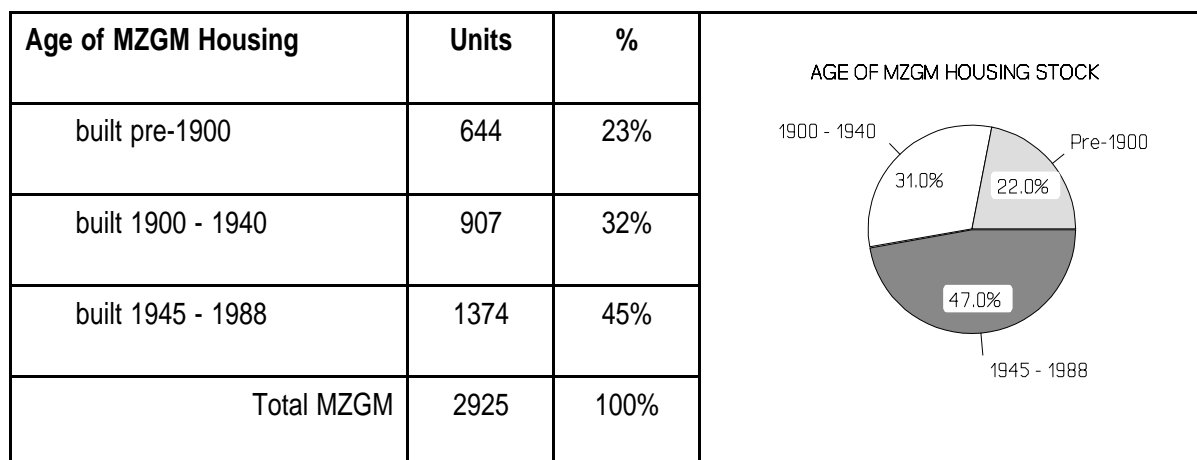


MZGM is now in the process of “maturation” as an independent operating company. What does mature mean for MZGM? The following indicators are implied from written materials and interviews:

- MZGM should be self-financing, able to cover its entire (recurrent and capital) costs on a sustainable basis without recourse to subsidies or transfers from the gmina budget.
- The housing services provided should meet or exceed minimum service levels — e.g. sanitation, safety, habitable space — as mandated by federal or local regulation.
- Housing costs should be affordable to low income families who are tenants of the gmina, and an adequate supply of social assistance units should be available for the destitute (specific obligations in these areas need to be defined according to legislation and local political context).

The real estate assets transferred to MZGM as an equity contribution by the gmina comprise approximately 2,925 housing units in 231 residential and commercial buildings. Construction types vary, as do the level of amenities and the physical conditions of the units. Some buildings are in poor physical repair as a result of 40 years of deferred maintenance.

The age and quality of MZGM's housing stock varies greatly, with many of the oldest buildings lacking one or more modern conveniences. Some 1,370 units (more than 45%) are heated by stoves rather than hot water “central” heating from either boilers or district heating plants. Most of the post-war buildings are of relatively poor quality construction and materials. A large part of the maintenance budget goes toward repairing gas leaks, and roughly 100 roofs need to be replaced.



MZGM has a maintenance department with a staff of 36, of whom 6 are administrative. The Department mainly provides essential or emergency repairs, and some minor routine repairs according to the availability of resources. The Department makes an annual repair schedule and budget based on their knowledge of conditions in the buildings. Inadequate rent levels combined with collection problems mean that MZGM cannot conduct the full schedule of repairs called for every year. The main part of the budget is spent on emergency repairs and



critical major repairs such as roof replacements which are done by outside firms working under competitive contracts.

Until 1994 rent revenues covered roughly 30% of the current costs of managing and maintaining the gmina housing stock. The balance was made up from the gmina's budget, but even then some maintenance was deferred. In 1994-95 this resulted in a shortfall of some 3.4 billion zloty, which was made up by the sale of a commercial property by the MZGM (resulting in a "profit" of nearly 2 billion). Rents were raised about 300% in 1994 - 95, and today rents cover about 70% of operating costs.

Rents are currently limited to not more than 1.5% of the replacement value, by decision of the Gmina Board. The Voivoda sets the theoretical ceiling on rents at 3% of value (as assessed by the Voivoda), but it is felt that this level would result in rising non-payment and would be politically unsupportable. Rents should be increased every 3 months, in concert with the increase of construction cost indexes by the Voivoda. However, the Voivoda indexes — and thus the basic rents — apparently have not increased at all this year. State controls on rents will continue until 2004.

MZGM staff expressed concern that further differentiation of rents (for example by location, quality of unit) might be seen as discriminatory and politically unwise.

Privatization of MZGM stock is very infrequent. Only 10 units out of 2,925 owned by MZGM were sold via privatization in 1995. The conditions were 10% down payment with the balance in 10 annual payments at interest rates subsidized by the gmina. Privatization is viewed as problematic (by MZGM) for 2 main reasons. First, it results in mixed-ownership buildings which complicates management of MZGM-owned stock. Second, if owners receive subsidies to privatize their units, there is concern that the purchasing household (the new owner) will be unable to afford the cost of maintenance and utilities. In other words, the subsidy allows a household to purchase more housing than they can afford to maintain. The result may be deferred maintenance, deterioration of the housing stock, and non-payment for essential services.

The gmina played a significant role as housing developer from the 1950's until 1988, when the last 23-unit building was completed (and subsequently sold by the gmina in 1990). Recent years saw a partial shift to housing cooperatives, and most recently the rise of single family housing.

The Local Government Act of 1990 transferred the responsibility of financing new construction to gminas. In Ostrow Wielkopolski production of new housing has declined precipitously as a result of the end of federal funding and unfavorable economic conditions in general. In 1995 no completions of new flats in apartment buildings were registered. It is believed that some single-family homes were completed but owners seek to delay formal completion as long as possible to avoid property taxes, so statistics are unreliable.

Although the Gmina "owns" the waiting list (of families in need of housing or which are under-housed), MZGM would apparently be obliged to provide units to households on the list if it were to produce new housing. Complete information about the structure of the waiting list should be available from the gmina. MZGM staff anticipate that some households on the waiting list would be capable of paying rents, but that it mainly comprises problematic, indigent households in the lowest income category.



Until 1993 housing cooperatives were the dominant vehicle for investment in new construction, with roughly 6,500 persons registered as coop members. However, this number does not represent effective market demand since cooperatives were eligible for cheap credits, and the long wait for coop housing (up to 10 years) resulted in over subscription, for example by parents who registered to obtain housing in the future for their children.

MZGM estimates the demand for new units in Ostrow Wielkopolski to be about 1500 units per year, and that 70% of these would be rental apartments because the majority of households cannot afford to finance single family homes. This number, representing more than 7.5% of the housing stock, seems quite high, even given the need to replace or rehabilitate the aging housing stock.

The MZGM has explored the possibility to participate in a TBS, and found that rents would have to be not less than 3.5% of replacement cost — far above current rents for MZGM housing — and thus affordable only to middle-income households.

The company has prepared a "cash flow statement" which is also referred to as a capital investment plan.

4.2 Priority Issues

Discussions with MZGM staff led to identification of numerous issues and problems, which could be divided into 2 groups: management and maintenance of the housing stock, and; development of new housing. A pervasive underlying theme throughout the discussions is the challenge to achieve financial self-sufficiency, which in turn reflects the priority of the gmina council and its enterprise restructuring program.

Manage and Maintain the Housing Stock

Generating sufficient revenues to cover operating costs is a top priority. This task is complicated because many of the parameters such as maintenance costs, subsidies and affordability to households change frequently as a result of economic transformation. The stop-gap measure of selling commercial (or other) real estate to cover operating losses is recognized as unsustainable. There is a variety of practical measures which MZGM believes might contribute to balancing costs and revenues. Some of these are identified below:

- Increasing rents gradually to raise revenues, keeping in view the affordability to households. Yet it is difficult to relocate Poles, who are simply unaccustomed to change their place of residence as a result of the historical absence of price incentives, combined with practical difficulties of relocating when there is no excess housing stock. This obstacle may be especially frustrating in attempts to relocate over housed pensioners.
- Differentiating rents according to the features of the unit such as location and quality of finish, or levying surcharges on "excess" space occupied in rent-controlled units. MZGM staff are wary that too much differentiation could be made a political issue by those asked to pay more.
- Affecting a more rational allocation of households to units, according to space requirements and ability to pay. The MZGM believes that reallocation of households in the stock could result in more



rational use of the space, ultimately improving affordability for many households. They understand that to achieve this will require a variety of incentives, and expressed interest to develop a "brokerage" service to facilitate exchanges both within their stock and between other gminas and regions.

- Better (more aggressive) rent collection to reduce delinquencies, within the bounds of political acceptability, combined with measures to gain coverage of housing allowances for those households which are eligible. According to MZGM staff the eligibility criteria for housing allowances are restrictive.

One of the most critical and urgent housing management issues identified by MZGM is that of chronic non-payment for public services such as water/sewer, heat and garbage collection. At present this problem is mainly confined to about 15% of MZGM tenants, but it is growing. Apart from the condition of the economy and unemployment, there are several factors contributing to this problem:

- Tariffs and contracts established by the communal service monopolies apparently do not allow for bad debt collection.
- Housing allowances by which the federal budget would share the burden of social welfare for the indigent are not yet filling this role, apparently because of strict requirements for participation, the most significant of which is that households are (reportedly) not eligible to receive an allowance until they clear their rent and utility arrears (need to explore further).
- Normal incentives for payment of arrears such as the threat of eviction or relocation to basic housing do not work for most of the chronic non-payers since they already occupy the poorest space available.

The principle of financial self-sufficiency of MZGM thus raises a paradox of non-payment of rents and communal services. Because MZGM units are the "housing of last resort" for the poorest households, the incidence of non-payment for services by MZGM tenants is likely to be greater and more persistent than across population in general. As owner of the units, MZGM is ultimately responsible for the arrears of its tenants, but at the same time, rents are its main source of revenues from which to cover arrears or collection losses. If these losses are to be recovered "internally" it means that other MZGM tenants will have to cross-subsidize the chronic non-payers, yet these are also typically low income households and/or commercial tenants who would thus bear a disproportionate share of costs which ought to be spread more equitably over all households or all customers.

Development of Housing

The need to develop new housing was expressed by the MZGM, but little could be said in detail to describe the nature of demand. Clearly, there will continue to be a need for "public" housing programs at least in the short- and mid-term, thus it seems likely that new units will be required if only as replacements for ageing or obsolete units. However, as yet neither lending (and other sources) for private construction, nor the development of new local-government revenue sources has filled the gap left by the end of state subsidies for housing construction. One of the priority issues voiced by the enterprise is to identify sources of financing for new construction.



MZGM is authorized to develop new housing, which could be used to house municipal tenants from the waiting list, to replace obsolete housing, or to sell on the market to generate revenues to cover any costs of the enterprise. Under the Act of 2 July, 1994 "on Lease of Housing Units and Housing Allowance" gminas are authorized to "establish ownership rights to individual Units with the purpose of their divestiture... with the purpose of executing rational management of their housing stocks." This appears to give scope to gmina/MZGM participation in commercial development if the revenues are directed to the stated purpose. It may therefore be possible to build new housing for sale as a source of financing construction or rehabilitation of MZGM housing. The staff were unclear whether households on the gmina's waiting list might have a legal right to claim housing units produced with MZGM participation, even if produced for sale to generate revenues.

MZGM needs to estimate more accurately the need for new housing, within a context of factors such as:

- demographic trends;
- household income and affordability profiles;
- acknowledged over-housing of some households which already occupy rent-controlled units (irrational occupancy patterns);
- the respective mandates (legal requirements) of the MZGM and the gmina to provide housing including obligations to households on the waiting list; and
- tradeoffs between investment in new construction and in rehabilitation and energy-conservation retrofitting of existing units.

Armed with better knowledge and forecasts of the housing (types, quantities) it is obliged to provide, the MZGM requires to develop a realistic, sustainable strategy to meet its obligations based on the full range of resources available to it.

4.3 *Recommendations for Technical Assistance (Housing)*

The gmina itself needs to assure that its legal and social obligations to provide housing and housing services are fulfilled. The primary goals of a program of TA in the housing sector should be:

- to assure that the gmina understands its goals and obligations in the housing sector, and that its strategy to attain them is sufficient to the task; and
- to assist the MZGM and holding company — as the main but not sole actor in the housing sector — to reach "maturity" in their respective roles, capable of fulfilling their housing mandates on a sustainable basis.

These are areas which should be of utmost concern to MZGM and the holding company, because they can jeopardize its viability as an autonomous operating unit financed by own-source revenues. At the same time they are vital concerns of the gmina because they affect the ability to provide housing and services at a standard which is acceptable to residents and which support social and economic development goals.

The result of the proposed TA will be to focus the efforts of the MZGM more tightly on its mandates, and to use its resources more effectively to fulfill them. At the same time, the gmina, holding company and MZGM will have a clear understanding of their goals and obligations, their respective roles, the resources available, and the strategy to attain the goals with available resources. To achieve this will require the MZGM to manage its significant asset base more as "corporate assets," and may require the gmina to broaden its understanding of its housing activities beyond the activities of the MZGM.

An incidental goal for LGPP is to promote the further development of a promising model for reform of housing enterprises, and to promote the replication of the approach in other gminas as appropriate.

Recommendations for specific TA activities fall under 2 main themes. First, to assist MZGM to design and implement a comprehensive package of practical measures — such as those identified in 4.2 above — designed to align operating costs with revenues. This will lead to financial self-reliance and will improve credit-worthiness.

Such a program would combine a strategy for progressively "tougher" rent collections, relocation of tenants, and increasing differentiation of rents, with "supportive" measures designed to help qualified households to obtain housing allowances and to reduce the threshold of participation. This needs to be approached systematically, in order that the combined impact of various actions does not exceed the ability of households to pay, and does not introduce unacceptable political risks. It further needs political support as the measures will undoubtedly displease some households. This in turn implies that communication with residents and other stakeholders will be an important element of the program.

As an example, TA could provide analytical support to help MZGM develop and justify a more effective policy for relocation of defaulting tenants, for increasing differentiation of rents and raising rents, and steps to assure that housing allowances are received by qualified households.

TA in this area could focus on program design, injecting international and Polish comparative experience. It is also critical that MZGM should make a strong case for wider distribution of the burden of chronic non-payment of rents and communal services by the time it renegotiates the contracts with suppliers of services. In this aspect,



TA would focus on developing MZGM's ability to present and win its arguments in the policy arena, but at the same time developing the awareness of the main obligations and policy choices at the higher policy levels (holding company, gmina council).

The second main theme is to develop new approaches and roles for the gmina and MZGM in the development of new housing. This effort should identify more specifically both the role of the MZGM as housing developer (or facilitator of housing development), and the policies and programs of the gmina external to the MZGM which may be instrumental in promoting development and increasing affordability through the private and not-for-profit sectors.

A fundamental starting point for this discussion is a quick assessment of housing needs in Ostrow. This would include demographic and economic studies (partially from existing data), analysis of waiting list and preferences of other residents for new housing, and knowledge of the housing stock and how it is allocated amongst households. Once the universe of unmet housing needs is estimated (and projected to short/mid-term), the gmina and MZGM need to define what are their respective social and legal mandates to provide housing to meet the needs. This activity, which may involve a variety of stakeholders and public participation, should result in a statement of policy of the gmina's goals and role.

Once the mandate of MZGM is well defined, TA could focus on assisting to design a program to fulfill the mandate. This would necessitate a clear-eyed assessment of how the assets owned by MZGM can be orchestrated to fulfil its mandates. It might, for example, result in recommendations to dispose some marketable properties to generate funds for replacement units which better match the GM's needs and/or for the renovation/rehab of existing municipal units. This program may be expected to have some of the following features:

- The MZGM would become a participant in diverse development activities in collaboration with various other financing partners, in order to leverage its own assets.
- Defining measures to be taken by the gmina and MZGM as enabler of housing production by other groups such as TBS and coops (note that CHF expects to provide support in this area).
- Investment in new housing would only be considered in counterpoint to investment in rehabilitation and repairs of existing housing — evaluation of the future role of existing housing is very important in the long term strategy given the rapidly ageing housing stock, and the history of deferred maintenance (but on the other hand it is easier to fill urgent needs from existing housing).
- The potential to obtain commercial credit secured by pledge of income from, or ownership of commercial properties would be explored, as would the possibility to use loan guarantees to stimulate loans targeted at certain groups.
- Exploration of demand-side incentives such as down payment subsidies to households.

It will be productive to link both of the above streams of work — housing management and the gmina's role in the development of new housing — to the preparation of the background study (studium) required for the new spatial plan (see also Section 5 below). At a practical level this would eliminate duplication in basic data

collection and analysis, and updating information about the existing housing stock. It should be approached as a collaborative exercise to promote better integration amongst a variety of necessary participants in the housing sphere.

Developing a Wider Perspective

As a result of the steps outlined above MZGM would define more clearly the mission of the company, and how it might evolve during the next 10 years or so. The gmina would develop a broader view of its role in promoting better management and development of housing by non-government participants, private developers and management firms, coops and condominiums. As the role and capabilities of MZGM are changing, the company needs to take care that it can promote itself to shareholders, for example in the form of the annual report encompassing not only on the financial results of the company but also on the degree to which the MZGM achieved its business goals such as the quality of the housing services (space, amenities available etc.). A parallel need is to develop the ability to articulate policy issues linked with the goals and policies of the gmina, in order to gain support for difficult policy decisions which may be required for long-term sustainability of the MZGM.

5 PREPARATION OF PHYSICAL MASTER PLAN

5.1 Background Information

City hall officials consistently listed their "planning and investment" priorities in the following order:

- road/sidewalk and street lighting improvements
- upgrade of existing sewage system including construction of new sewage treatment plant and new sewage mains
- new water supply mains
- purchase of buses
- construction of 5 new sport facilities (gyms)
- improving efficiency of central heating plant

The adopted long-range Capital Investment Plan, based on an extrapolation of the city budget for the years 1997 - 2000, lists 9 major development categories according to the budgeted funds:

PROJECT		Amounts to be spent by the year 2005 000's of PLN
1	road improvement	37,533
2	purchase of new city buses	1,200
3	storm water drainage	0,499
4	new street lighting	0,481



5	building new sport facilities	0,394
6	real estate property buy-back for infrastructure construction	0,342
7	environmental protection	0,269
8	solid waste disposal	0,104
9	waste water treatment plant	0,100

For details of a long range improvement plan see attachment "A."

The City Development Department employs 26 staff members in several divisions:

- architecture and construction (5)
- City Architect (one)
- infrastructure office headed by City Engineer (3)
- land surveyors and land management office (14)
- environmental protection office (2)

Heads of these divisions report to the department head, who in turn reports to the City President. Head of Development Department and City Engineer maintain contacts with the municipal service enterprises (refer to list of 6 operating companies in Section 2 above).

The City Architect is responsible for coordination of work on detailed local master plans for designated areas. Five of those areas have been determined, covering approximately 8% of the city and including the city center (old town). In addition, his daily duties include issuing of construction permits and so-called "decision on conditions for land development." This last document can be requested by anyone who owns or is interested in buying a specific property, and contains zoning requirements and basic data describing existing infrastructure. This document must be obtained before any design work can be started. Land development information is issued based on information extracted from an approved master plan.

Recent Developments

In recent years several infrastructure projects were completed by the municipality, including:

- new water treatment plant - capacity 1500 cubic m./hr
- solid waste dump (about to be completed)
- 13 kilometers of new water mains
- 6.6 kilometers of sewage lines
- 1 kilometer of storm water mains

Projects carried out by others in recent years include:

- gas station (Shell Oil Co.)



- MINIMAL supermarket (about to be opened)
- construction of 60 dwelling units in organized developments

Availability of Land for Development

In the recent year's city took over from central government 675 hectares (ha) of land in 6518 separate plots. Another 300 hectares will become city property in the future. Out of this numbers only 21.5 ha, mainly industrial lots are commercial and could be sold on the open market.

Nine parcels of land (total of more than 140 ha.) have been designated by the city for "investor participation," but without indicating the desired land use or terms of cooperation with the city.

For detailed information on the city owned property, see attachment "B."

Detailed information about land is dispersed amongst various city and non-city agencies. Information on land including plot numbers and dimensions, and information regarding built improvements is held in the City Surveyor's Office. Details about infrastructure improvements are held by utility companies such as WODKAN and electrical and gas companies. Title to the land can be verified by visiting local land-book court.

Approximate land prices are as follows:

agricultural	2 PLN/m ²
green field construction lots'	5 to 7 PLN/m ²
attractive with infrastructure	20 to 30 PLN/m ²
prime location	50 PLN/m ²

Master Plan — Local Land Use Plan

Ostrów revised its "previous era" master plan in 1994 to reflect economic and social policy changes. Most of the land use limitations — designated uses for specific sites or areas — were removed at that time. This plan became the law in 1994. Several months later GOP introduced new legislation, the "Act on Spatial Development" dated July 7, 1994, which now governs the preparation of local plans, although it has little to do with broad policy objectives to be served by physical planning decisions and investments. According to this law all municipalities in Poland are required to develop new local plans, reflecting the revised law, by the year 2000. By the same year all previously developed plans will no longer be applicable. If a municipality does not adopt a new land use plan on time, then the municipality will have to issue "decisions on the conditions for land development" based on current law. In practice the municipality will conduct a full legal procedure separately for each application.

The City Architect believes that the current Local Land Use Plan is too general for intelligent decision-making as to the actual use of a particular land parcel. On the other hand, he fears that introduction of more restrictive plans will cause an avalanche of legal suits, given the language of the Act. This fear may be fully justified, because the new Act governing preparation of local plans allows citizens to sue the municipality for any changes in use of the property that resulted in diminished real value of the property. The City Architect was clearly interested to receive help in solving these and other issues relevant to development of a new local land use plan.



As mentioned previously, most land use information is dispersed between various city and non-city agencies and authorities. No central office has all relevant information on hand. Clarification of ownership rights is often problematic because current law does not require the owner to register his rights in court. Frequently a perpetual register shows as owner a person who died several years earlier, while the present owner holds a notarial deed which is unregistered in court. According to the law the second person holds valid title.

Until introduction of new Building Code in 1994, illegal construction activities were very common. Most of those “illegal” buildings are not shown on any city records. In addition many of legally constructed building are not shown in city records as completed and occupied.

The Deputy President expressed her interest to develop a more restrictive local law that will insure coherent architecture of street facades. With the relaxation of land development law many recently built buildings seems not to respect local character.

5.2 Priority Issues

Priority issues facing Ostrów Wielkopolski related to the development of the Local Land Use Plan could be summarized as follows:

- articulating a long range city development policy, linked to the capital investment budget, which will clearly list the major direction(s) of growth, to be used as the cornerstone for developing a new land use plan;
- establishing channels of communication between City Hall (in particular the City Development Department) and local communities to facilitate exchange of ideas and consult with them early in the process to receive input and feedback on recommendations to be embodied in the plan;
- investigation of legal implications of the Act on Spatial Planning, especially relating to possible compensation for diminished value of the property, and to predict as well as possible what the consequences to the gmina might be under different scenarios (and interpretations);
- verification in the field of actual land improvements (by conducting city wide investigation that includes actual visits to all registered lots or employing aerial photography techniques);
- consolidation of all information relevant to the preparation and monitoring of the land use plan in one place, and/or improving information exchange with City owned enterprises, particularly those receiving greater autonomy to pursue their development as operating companies; and
- setting minimal requirements for buildings exterior, or developing a review process.

5.3 Recommendations for Technical Assistance

The legal implications of the new “Act on Spatial Planning” is clearly one of the first issues to be studied. This issue has broader audience than local planners and landowners in the city of Ostrów — findings of the study may have impact on all other gminas in Poland. Furthermore, depending on the conclusion of the study, some

changes to the "Act" may have to be initiated in the appropriate forums. Meanwhile, the city can benefit from a better understanding of its potential obligations to landowners.

Another aspect of local planning and operation of city building departments is consolidation and easy access to data on real estate. In this issue some systematic connection between the city and other related agencies including the city owned enterprises, needs to be devised. One aspect of this question is the physical exchange of information, encompassing real estate, land values, and infrastructure. Some work regarding a national system of land books registers has been initiated, which should be taken into account in Ostrów. This issue could be addressed in parallel with the collection and review of specific information items which would be required as input to the new "studium" — background conditions for the spatial plan.

A second, more fundamental aspect is to define the respective roles of the gmina and its planning department on the one hand, and the holding company combined with operating units, in preparing the plan (and capital investment plan).

City Hall needs to communicate as early as possible on changes of policies and direction of development. This will be very true in relation to such decisions as changes to the rules governing land use. In Ostrów 60% of the population lives in private homes. This is a very powerful electorate that should not be left without say about their future. It is recommended that the city will be assisted in developing a process of communication between city agencies and their constituency. The need to prepare a new spatial plan gives an excellent vehicle for this, as it should obviously reflect the reasonable hopes and concerns of residents.

Assistance relating to verification of actual land improvements should include preliminary cost evaluation of investigation conducted in the field and cost of aerial or satellite photography. Evaluation should also assess the relative advantages and disadvantages of alternative approaches which might reasonably be applied in Ostrow.

Establishing criteria and procedures for approving building elevations design is a separate area of potential assistance. The proposed system should on one hand be transparent for design professionals and on the other hand allow the office vested with this authority to exercised best judgement. Clearly there is a need not to alienate landowners and business people by adding undue procedural or financial burdens. They are important stakeholders who need to be involved in the process.

6 CONCLUSIONS

In his report on transformation of the communal enterprises President Kruszynski states the intent of the city authorities to use the freedom and autonomy granted by the local government act to enable local experts and residents to apply their knowledge and abilities to provide public services. The goal is to render services to the benefit of city inhabitants, within the scope of community economy.

For the transformations being wrought in Ostrow to indeed reflect "authentic decision making about the common good" then we suggest that the strong (and positive) orientation of the transformed enterprises toward business and market principles in needs to be balanced against social goals such as reducing unemployment, or improving housing conditions.



We suggest to assist Ostrow Wielkopolski to further refine its “corporate” approach to fulfill the mandate of the Local Self Government Act, to improve the chances that this progressive model will be effective and responsive to local needs and federal mandates.

Ostrow Wielkopolski *is* a model which other gminas can profit from examining, and possibly emulating. It will become an even better example if activities (decisions) determined largely by technical and financial criteria can be linked more explicitly to general goals, policies and strategies of the gmina (and residents), and within an investment program which reflects the needs of the Holding Company and other operations of the gmina.

The proposed TA would reinforce the positive features of the gmina's ambitious restructuring program, and improve the chances for long-term sustainability.

ATTACHMENT A
10-YEAR INVESTMENT PLAN

ATTACHMENT B
GMINA-OWNED LAND

ATTACHMENT C

LIST OF SUPPORT DOCUMENTS IN ENGLISH

The following support documents are available in English translation:

- *"The Course of Communalization Process and Property Transformations in the Communal Sector,"* Mirosław Kruszynski, President, Ostrow-Wielkopolski.
- Notarial Deed: Deed of Partnership by which the limited liability company "Miejski Zakład Gospodarki Mieszkaniowej "MZGM" was established.
- Act of 2nd July 1994 (federal) "on Lease of Housing Units and Housing Allowances"
- Act of 24 June, 1994 (federal) "on Housing Unit Ownership"
- Local Self-Government Act, publication date 22 March 1990
- Act of 7 July 1994 (federal), "on Spatial Development"

ATTACHMENT D

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